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July 11, 2005

BY OVERNIGHT DELIVERY AND E-FILE

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station  
Boston, MA 02110

Re: Bay State Gas Company, D.T.E. 05-27

Dear Ms. Cottrell:

Enclosed for filing, on behalf of Bay State Gas Company ("Bay State"), please find Bay State's responses to the following information requests:

From the Attorney General:

AG-15-19	AG-15-20	AG-15-21	AG-19-16
AG-21-9	AG-21-18	AG-21-19	AG-21-20
AG-22-40			

From the Department:

DTE-5-7	DTE-8-9	DTE-8-11	DTE-9-23	DTE-11-35
DTE-11-36	DTE-18-13			

From MA Oil Heat Council:

MOC-4-2	MOC-4-5 (Bulk)
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From the USWA:

USWA-2-23	USWA-2-25	USWA-3-11
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From the UWUA:

UWUA-1-10 (Bulk) UWUA-1-32 UWUA-2-7 UWUA-2-21

UWUA-2-23 UWUA-2-24 UWUA-2-31 UWUA-3-9

UWUA-4-1

Please do not hesitate to telephone me with any questions whatsoever.

Very truly yours,

Patricia M. French

cc: Per Ground Rules Memorandum issued June 13, 2005:

Paul E. Osborne, Assistant Director – Rates and Rev. Requirements Div. (1 copy)

A. John Sullivan, Rates and Rev. Requirements Div. (4 copies)

Andreas Thanos, Assistant Director, Gas Division (1 copy)

Alexander Cochis, Assistant Attorney General (4 copies)

Service List (1 electronic copy)

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
FIFTEENTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL  
D. T. E. 05-27

Date: July 11, 2005

Responsible: Stephen H. Bryant, President

AG-15-19 Please provide all reports and supporting documentation related to the Company's most recent audit of its conservation and load management/DSM programs' costs. If the audit was not performed by an independent third party, provide the resumes of the individuals conducting the audit and describe the audit review process. If the Company's conservation and load management programs have not been audited in the past five years, when will the next audit occur? If there is no scheduled date, under what conditions will the next audit occur?

Response: The Company has no record of performing, or having performed by an independent third party, an audit of its conservation and load management/DSM programs' costs. The Company currently does not have an audit of conservation and load management/DSM programs' costs scheduled.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
FIFTEENTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL  
D. T. E. 05-27

Date: July 11, 2005

Responsible: Stephen H. Bryant, President

AG-15-20      Please provide all reports and supporting documentation related to the Company's most recent audit of the gas supply, transmission and storage costs. If the audit was not performed by an independent third party, provide the resumes of the individuals conducting the audit and describe the audit review process. If the Company's GAF costs have not been audited in the past five years, when will the next audit occur? If there is no scheduled date, under what conditions will the next audit occur?

Response:      Attachment AG-15-20 is a copy of an internal audit, dated August 22, 2001, of the gas procurement processes. The Company will supplement this response with resumes of the individuals that were responsible for conducting the audits.



**TO:** Thomas J. Aruffo, Vice President, Energy Supply Services

**FROM:** Arthur A. Paquin, Vice President Audit, NiSource Inc.

**DATE:** August 22, 2001

**SUBJECT:** Gas Procurement Process

Internal Audit recently completed a review of the gas procurement process for NIPSCO, Bay State Gas and Northern Utilities. The risks associated with the gas procurement process were identified and internal controls were tested to determine if Energy Supply Services is in compliance with contractual and regulatory requirements, and that accounting records for gas purchases are accurate and reliable. The scope of the audit was both operational and compliance in nature and focused on the following areas:

- Price Protection Services (PPS) profitability analysis
- Value received for loans and straddles and the impact on the Gas Cost Incentive Mechanism.
- Accounting for Parks and Loans
- Credit administration and counterparty approval process
- Processing of invoices for gas purchases
- Deal capture and deal confirmation process
- Volumetric reconciliation
- SFAS 133 Reporting requirements

We believe that the internal controls over the gas procurement process are adequate to manage the associated risks, however, there are opportunities for improvement in the following areas:

- Profitability analysis for the Price Protection Services (PPS) Program
- Accounting practices for loans and straddles
- Payment variance recognition for Bay State Gas and Northern Utilities
- Credit administration
- Confirmation process

Due to the recent increase in enrollment of the PPS program, procedures to monitor profitability were inadequate. To better facilitate the profitability reporting process, additional CIS reports should be generated on a monthly basis to track PPS revenue, sales volume and storage impact. A defined marketing strategy should also be implemented to identify product pricing, customer usage and hedging requirements. Management has responded by developing reports to track PPS margin for the capped and fixed price programs. A revised marketing plan will be implemented in September to include "real time pricing" and a daily customer sign-up report used for demand profiles and hedging. Additional support will be required from several departments, including I/T for CIS support, Product Line Management, Sales & Marketing, Performance & Profitability, Customer Service, and Energy Supply Services in order to achieve a consistent level of product performance analysis.

A review of gas parks and loans resulted in the following observations: (1) Accruals for parks and loans were not always being properly reversed at the conclusion of the payback period resulting in uncleared accruals. (2) Fees received for loans and straddles, which offset the monthly gas cost, were not being amortized over the term of the deal as required by GAAP. Management has implemented a monthly review of open positions and is recognizing the fee income ratably over the term of the deal. We also recommend that Energy Supply Services perform an economic analysis, which includes a cost of capital calculation prior to entering into park and loan transactions.

A formal Corporate Credit Policy, which outlines acceptable levels of counterparty credit risk, has not been adopted. Practices have been established to control credit risk and there is a continuous dialogue with Credit Risk Management to address credit risk exposure. It should be noted that a proposed Corporate Credit Policy is being developed but has not been submitted for approval. We recommend that a Corporate Credit Policy covering Energy Supply Services be formalized and implemented to control operational, financial and non-performance risk.

Energy Supply Services currently does not initiate any confirmations for spot and term gas purchases. Confirmations for spot purchases are being received from counterparties, however, the review process is limited. For term deals, "Exhibit A" agreements are sent to counterparties and executed in conjunction with the Master Purchase Sales Agreement. Management is investigating the benefit of a system generated confirmation process.

Invoices for gas purchases are being properly recorded and payments are being made in a timely manner. However, variances for Bay State Gas and Northern Utilities are not identified in the Energy Access Gas Management System (EASy). To improve efficiency, we recommend that the EASy system be enhanced to include the remittance and general ledger interface modules for Bay State Gas and Northern Utilities. Management is reviewing the feasibility of this upgrade.

We would like to acknowledge the assistance and cooperation provided by the staff of the departments that were included in this audit.



Arthur A. Paquin

cc:	G. L. Neale	D. K. Eldert (w/attachment)
	S. P. Adik	P. Landini (w/attachment)
	P. J. Mulchay	C. J. DeLany (w/attachment)
	J. W. Yundt	R. G. Kriner (w/attachment)
	B. Hatches (w/attachment)	C. J. Largura (w/attachment)
	M. W. O'Donnell	P. McMillan (w/attachment)
	J. M. Clarke (w/attachment)	R. Reyna (w/attachment)
	K. M. Margossian (w/attachment)	C. P. Smith (w/attachment)
	D. L. Babcock (w/attachment)	R. D. Walker (w/attachment)
		Arthur Andersen LLP (w/attachment)

RISK MANAGEMENT PLAN (RMP)			
AUDIT:	Energy Supply Services Gas Procurement Process		W/P Ref.:
			Section 1(Bk. 1 of 2) W/P - 100 & 130(a)
Audit #:	01-1134		
Prepared By:	R. L. Sanders & Lin Koh	Date:	08/22/01
RISK MANAGEMENT PLAN NO:		1	<input checked="" type="checkbox"/> Improvement needed <input type="checkbox"/> Properly operating
OBJECTIVE:	Verify that gas purchasing and trading activities are conducted only with counterparties who have been properly approved.		
SCOPE:	Randomly selected seven (7) business partners from the "File Index" report prepared by the Energy Supply Services (3 – NIPSCO, 2 – Bay State Gas, and 2- Northern Utilities).		
TESTS:	1. Verify that signed Master Purchase/Sale Agreements are on file for the seven (7) business partners that were randomly selected. 2. Verify that gas is not being purchased from business partners with pending Agreements.		
FINDING STATEMENT:	Gas purchases are being made for Bay State Gas from marketers whose Master Purchase/Sale agreements are pending approval.		
OBSERVATION:	<p><u>Criteria</u> All active counterparties should have signed Agreement with a credit line established prior to trading</p> <p><u>Condition</u> According to invoice remittances, Bay State Gas showed purchases of \$20,442,356.48 from various business partners that had pending Master Purchase/Sale Agreements.</p> <p><u>Cause</u> Energy Supply Services recently assumed the contract administration function for Bay State Gas and has not reviewed all agreements.</p>		
RISK:	Purchases may be made from unacceptable counterparties exposing the company to non-performance and economic risk.		
RECOMMENDATION:	Master Purchase Agreements should be reviewed and authorized on a timely basis. Further, credit evaluations and credit limits should be determined prior to trading.		

RISK MANAGEMENT PLAN (RMP)			
AUDIT:	Energy Supply Services Gas Procurement Process		W/P Ref.:  Section 1(Bk. 1 of 2) W/P - 100 & 130 (a)
	Audit #:	01-1134	
Prepared By: R. L. Sanders & Lin Koh			Date: 08/22/01

MANAGEMENT RESPONSE:	Bay State Gas agreements have been reviewed and the Master Purchase Agreements have been sent out for signatures.
ASSIGNMENT OF RESPONSIBILITY:	Doug Walker, Director, Energy Supply Services
IMPLEMENTATION DATE:	September 1, 2001
DATE (RMP) DISCUSSED WITH MANAGEMENT:	June 5, 2001
ADDITIONAL NOTES:	



## RISK MANAGEMENT PLAN (RMP)

<b>AUDIT:</b>	Energy Supply Services Gas Procurement Process		<b>W/P Ref.:</b>  Section 4 (Bk. 1 of 2), W/P – 110 & 110 (b)
Audit #:	01-1134		
Prepared By:	R. L. Sanders & Lin Koh	Date:	08/22/01

<b>RISK MANAGEMENT PLAN NO:</b>	2	<input checked="checked" type="checkbox"/> Improvement needed  <input type="checkbox"/> Properly operating
<b>OBJECTIVE:</b>	Verify that confirmations or "Exhibit A" agreements for term deals are present for all gas purchases.	
<b>SCOPE:</b>	Randomly selected three (3) NIPSCO business partners from the "File Index" report prepared by the Energy Supply Services. Gas purchases for term deals, as noted on EASy system reports, for the three (3) business partners were reviewed for the months of March and December 2000. For the months of March & December, five (5) term deals reviewed.	
<b>TESTS:</b>	Traced term deal transactions from the EASy system "Month to Date Deal Cost Report" to confirmations or "Exhibit A" agreements on file.	
<b>FINDING STATEMENT:</b>	Counterparty confirmations were present for term deals tested.	
<b>OBSERVATION:</b>	<p><u><b>Criteria</b></u> Confirmations should be on file for all term deals.</p> <p><u><b>Condition</b></u> Counterparty confirmations were on file for the five (5) term deals reviewed. Energy Supply Services does not initiate confirmations for spot deals.</p> <p><u><b>Cause</b></u> Staffing constraints do not permit the sending of confirmations.</p>	
<b>RISK:</b>	Failure to confirm specific terms of the gas purchase transaction with the supplier as required by the Master Purchase/Sale Agreement resulting in disputed invoices.	
<b>RECOMMENDATION:</b>	Confirmations on term deals should be prepared and submitted to the supplier for all gas purchases entered into by the Energy Supply Services (NIPSCO, Bay State Gas & Northern Utilities). Copies of confirmations sent to the supplier should be retained in the appropriate folder until the signed copy is received. The possibility of implementing an automated system, in which the confirmation would be automatically generated upon the input of the information, should be considered.	
<b>MANAGEMENT RESPONSE:</b>	"Exhibit A" agreements are currently executed by Energy Supply Services for all term deals and the confirmation process will be reviewed as part of the Energy Supply Services Integration Project.	

RISK MANAGEMENT PLAN (RMP)			
AUDIT:	Energy Supply Services Gas Procurement Process		W/P Ref.:
			Section 4 (Bk. 1 of 2), W/P – 110 & 110 (b)
Audit #:	01-1134		
Prepared By:	R. L. Sanders & Lin Koh	Date:	08/22/01

ASSIGNMENT OF RESPONSIBILITY:	Doug Walker, Director, Energy Supply Services
IMPLEMENTATION DATE:	August 1, 2001
DATE (RMP) DISCUSSED WITH MANAGEMENT:	June 5, 2001
ADDITIONAL NOTES:	<u>Internal Audit:</u> As an industry practice, confirmations are not usually sent out for Spot purchases. Should billing discrepancies occur, taped phone conversations are reviewed.

RISK MANAGEMENT PLAN (RMP)			
AUDIT:	Energy Supply Services Gas Procurement Process		W/P Ref.:
			Section 1(Bk. 1 of 2), W/P - 100 Section 2 (Bk. 1 of 2)
Audit #:	01-1134		
Prepared By:	R. L. Sanders & Lin Koh	Date:	08/22/01

RISK MANAGEMENT PLAN NO:		3	<input checked="" type="checkbox"/> Improvement needed <input type="checkbox"/> Properly operating
OBJECTIVE:	Verify that an approved Credit Policy exists and that it is being adhered to.		
SCOPE:	Randomly selected seven (7) business partners from the "File Index" report prepared by the Gas Supply Department (3 – NIPSCO, 2 – Bay State Gas, 2 - Northern Utilities) for review.		
TESTS:	1. Verify that credit files include a signed copy of the credit approval letter. a. Verify that an individual identified by the Credit Committee as an authorized approver signed the credit approval letter. b. Examine documents to ensure that the amount approved did not exceed the authorized trading limit. c. Verify that guarantees are present from the parent company. 2. Verify that a process to identify credit risk has been developed and is being monitored.		
FINDING STATEMENT:	Energy Supply Services does not have a formal corporate credit policy, however, standard practices have been established to manage credit risk.		
OBSERVATION:	<p><u>Criteria</u> According to the <b>Commodity Risk Management Policy</b>, "Business units will trade financial instruments only with brokers and counterparties approved in accordance with established credit policies and procedures".</p> <p><u>Condition</u> Current process for monitoring credit risk is inadequate due to incomplete credit files maintained for counterparties.</p> <p><u>Cause</u> A formal credit policy was never implemented.</p>		
RISK:	Transactions may be made with unacceptable counterparties exposing the company to operational, financial and non-performance risk.		

## RISK MANAGEMENT PLAN (RMP)

<b>AUDIT:</b>	Energy Supply Services Gas Procurement Process		<b>W/P Ref.:</b>
			Section 1(Bk. 1 of 2), W/P - 100 Section 2 (Bk. 1 of 2)
<b>Audit #:</b>	01-1134		
<b>Prepared By:</b>	R. L. Sanders & Lin Koh	<b>Date:</b>	08/22/01

<b>RECOMMENDATION:</b>	A corporate wide credit policy needs to be implemented to meet the needs of all operating entities to ensure that the company is not exposed to any operational, financial or non-performance risk.
<b>MANAGEMENT RESPONSE:</b>	The Credit Risk function for Energy Supply Services is currently being evaluated to determine the reporting structure and specific responsibilities of this process. As part of the Energy Supply Services integration, a formal corporate credit policy will be implemented to cover Energy Supply Services.
<b>ASSIGNMENT OF RESPONSIBILITY:</b>	Roger Reyna, Director, Credit Risk
<b>IMPLEMENTATION DATE:</b>	January 1, 2002
<b>DATE (RMP) DISCUSSED WITH MANAGEMENT:</b>	August 14, 2001
<b>ADDITIONAL NOTES:</b>	

RISK MANAGEMENT PLAN (RMP)			
AUDIT:	Energy Supply Services Gas Procurement Process		W/P Ref.:
			Section 7(Bk. 1 of 2), W/P - 130
Audit #:	01-1134		
Prepared By:	R. L. Sanders & Lin Koh	Date:	08/22/01

RISK MANAGEMENT PLAN NO:		4A	<input checked="" type="checkbox"/> Improvement needed <input type="checkbox"/> Properly operating
OBJECTIVE:	Verify that invoices for gas purchases are properly recorded and disputed amounts are being settled in a timely manner.		
SCOPE:	Randomly selected seven (7) business partners from the "File Index" report prepared by the Energy Supply Services (3 – NIPSCO, 2 – Bay State Gas, 2 – Northern Utilities) and review payment invoices submitted for gas purchases for the months of March and December 2000.		
TESTS:	1. Verify that invoice information is reconciled to the Month to Date Deal Cost report generated by the Energy Access System (EASy). 2. Verify that invoice payments and/or adjustments are properly recorded by accounting in the EASy system and the general ledger. 3. Verify that invoice payments are being remitted in accordance with the terms specified in the Master Purchase/Sale agreement. 4. Verify that invoice variances are properly investigated and resolved in a timely manner.		
FINDING STATEMENT:	Overall, invoices for gas purchases are properly recorded and payments are being made in a timely manner. However, variances for Bay State Gas invoices are not identified in the EASy system.		
OBSERVATION:	<p><u>Criteria</u> Disputed amounts should be properly investigated and resolved in a timely manner. Payment variances should be identified separately within the EASy system.</p> <p><u>Condition</u> NIPSCO invoices are being paid and invoice variance are properly investigated and resolved in a timely manner. Bay State Gas invoices are being paid timely but invoice variances are not identified in the EASy system.</p> <p><u>Cause</u> NIPSCO EASy system includes a module that identifies and tracks invoice variances while Bay State Gas does not have this module on their system. Therefore, it is difficult to confirm the status of Bay State Gas invoice variances.</p>		
RISK:	Duplicate payments may be made. Large variances may go undetected. Cash may not be disbursed on a timely basis.		

RISK MANAGEMENT PLAN (RMP)			
AUDIT:	Energy Supply Services Gas Procurement Process		W/P Ref.:
			Section 7(Bk. 1 of 2), W/P - 130
Audit #:	01-1134		
Prepared By:	R. L. Sanders & Lin Koh		Date: 08/22/01

<b>RECOMMENDATION:</b>	To improve efficiency, the EASy system should be upgraded for Bay State Gas and Northern Utilities to include the remittance and general ledger interface modules.
<b>MANAGEMENT RESPONSE:</b>	Energy Supply Services is performing a feasibility study for the upgrade to EASy for Bay State Gas and Northern Utilities . Energy Supply Services will seriously consider the upgrade to improve efficiency and expedite the closing process.
<b>ASSIGNMENT OF RESPONSIBILITY:</b>	Doug Walker, Director, Energy Supply Services Pat McMillan, Manager, Bay State Gas Accounting
<b>IMPLEMENTATION DATE:</b>	November 30, 2001
<b>DATE (RMP) DISCUSSED WITH MANAGEMENT:</b>	June 5, 2001
<b>ADDITIONAL NOTES:</b>	

RISK MANAGEMENT PLAN (RMP)			
AUDIT:	Energy Supply Services Gas Procurement Process		W/P Ref.:
			Section 6 (Bk. 2 of 2)
Audit #:	01-1134		
Prepared By:	R. L. Sanders & Lin Koh	Date:	08/22/01

RISK MANAGEMENT PLAN NO:		4B	<input type="checkbox"/> Improvement needed <input checked="" type="checkbox"/> Properly operating
OBJECTIVE:	Verify that gas is being reconciled between actual and nominated volumes to ensure that all gas volumes are accounted for.		
SCOPE:	Randomly selected one business partner for review.		
TESTS:	Traced transactions for the business partner on one pipeline from the EASy system "Month to Date Deal Cost Report" to various lead schedules.		
FINDING STATEMENT:	Gas volumes are being reconciled timely and all gas volumes are accounted for.		
OBSERVATION:	<u>Criteria</u> Gas should be reconciled between the actual and nominated volumes and accounted for on a timely basis.  <u>Condition</u> Volumetric gas reconciliation is being done on a monthly basis.		
RISK:	Payments may be made based upon external documents without an independent confirmation.		
RECOMMENDATION:	None		
ASSIGNMENT OF RESPONSIBILITY:	Doug Walker, Director, Energy Supply Services		

<b>RISK MANAGEMENT PLAN (RMP)</b>			
<b>AUDIT:</b>	Energy Supply Services Gas Procurement Process		<b>W/P Ref.:</b>
			Section 8(Bk. 1 of 2)
<b>Audit #:</b>	01-1134		
<b>Prepared By:</b>	R. L. Sanders & Lin Koh	<b>Date:</b>	08/22/01

<b>RISK MANAGEMENT PLAN NO:</b>	5	<input type="checkbox"/> Improvement needed <input checked="" type="checkbox"/> Properly operating
<b>OBJECTIVE:</b>	Verify that transactions recorded in the Personal Trader's Log are being properly recorded in the EASy system.	
<b>SCOPE:</b>	Selected twenty-nine (29) transactions from the Personal Trader's Logs for the various traders for review. (NIPSCO – 17, Bay State Gas – 10, and Northern Utilities – 2). The audit review covered randomly selected days during the months of March and December 2000.	
<b>TESTS:</b>	Review a random sample of transactions for each trader. Trace log entry to the EASy system Month to Date Deal Cost Report for the following information: a. Delivery Dates b. Assigned volumes c. Unit Price	
<b>FINDING STATEMENT:</b>	Transactions are being entered timely and correctly.	
<b>OBSERVATION:</b>	<p><u><b>Criteria</b></u> It is the responsibility of the Gas Supply department to ensure that information pertaining to daily gas purchases is accurately recorded in the EASy system.</p> <p><u><b>Condition</b></u> All transactions sampled were properly recorded in the EASy system.</p>	
<b>RISK:</b>	Misstated information would lead to incorrect GCIM calculations. Misstated information would lead to incorrect GCA factors to be applied to native load customers (ratepayers).	
<b>RECOMMENDATION:</b>	None	
<b>ASSIGNMENT OF RESPONSIBILITY:</b>	Doug Walker, Director, Energy Supply Services	



<b>RISK MANAGEMENT PLAN (RMP)</b>			
<b>AUDIT:</b>	Energy Supply Services Gas Procurement Process		W/P Ref:  Section 6(Bk. 1 of 2) W/P - 120
Audit #:	01-1134		
Prepared By:	R. L. Sanders & Lin Koh	Date:	08/22/01

<b>RISK MANAGEMENT PLAN NO:</b>	<div style="border: 1px solid black; display: inline-block; padding: 2px 10px;">6A</div>	<input checked="checked" type="checkbox"/> Improvement needed  <input type="checkbox"/> Properly operating
<b>OBJECTIVE:</b>	Verify that transactions that affect the Gas Cost Incentive Mechanism (GCIM) are being properly reported to and recorded by accounting	
<b>SCOPE:</b>	Monthly GCIM activity reports for the year 2001.	
<b>TESTS:</b>	1. Verify that all adjustments associated with the actual monthly gas cost are recorded correctly. 2. Verify that the appropriate GCIM sharing percentage is being applied on a monthly basis.	
<b>FINDING STATEMENT:</b>	Values received on loans and straddles, which offset the monthly gas cost, are not being allocated over the term of the deal resulting in higher GCIM earnings.	
<b>OBSERVATION:</b>	<p><u><b>Criteria</b></u>          Values received on loans and straddles should be amortized on a straight-line basis over the term of the deal per GAAP and SEC Accounting Bulletin 101.</p> <p><u><b>Condition</b></u>          Values received on loans and straddles were not being amortized in accordance with GAAP and SEC guidelines.</p> <p><u><b>Cause</b></u>          Accounting was not notified that values would be received on loans and straddles and therefore unknowingly allowed fees from these loans and straddles, initiated in November 2000, to be recorded in March 2001, even though associated benefits occurred throughout the term of the deal.</p>	
<b>RISK:</b>	Misstated information would lead to incorrect GCIM sharing calculations. Native load customers (ratepayers) may not have shared in the prior months savings.	
<b>RECOMMENDATION:</b>	According to GAAP and SEC guidelines, values received on loans and straddles should be amortized as earned over the term of the deal.	
<b>MANAGEMENT RESPONSE:</b>	Energy Supply Services has developed spreadsheets to track the value received on loans and straddles and recognize these values ratably over the term of the deal.	

## RISK MANAGEMENT PLAN (RMP)

<b>AUDIT:</b>	Energy Supply Services Gas Procurement Process		<b>W/P Ref.:</b>
			Section 6(Bk. 1 of 2) W/P - 120
<b>Audit #:</b>	01-1134		
<b>Prepared By:</b>	R. L. Sanders & Lin Koh	<b>Date:</b>	08/22/01

<b>ASSIGNMENT OF RESPONSIBILITY:</b>	Doug Walker, Director, Energy Supply Services
<b>IMPLEMENTATION DATE:</b>	May 1, 2001
<b>DATE (RMP) DISCUSSED WITH MANAGEMENT:</b>	June 5, 2001
<b>ADDITIONAL NOTES:</b>	

## RISK MANAGEMENT PLAN (RMP)

<b>AUDIT:</b>	Energy Supply Services Gas Procurement Process		<b>W/P Ref:</b>
			Section 6(Bk. 1 of 2) W/P - 120
<b>Audit #:</b>	01-1134		
<b>Prepared By:</b>	R. L. Sanders & Lin Koh	<b>Date:</b>	08/22/01

<b>RISK MANAGEMENT PLAN NO:</b>	6B	<input checked="checked" type="checkbox"/> Improvement needed <input type="checkbox"/> Properly operating
<b>OBJECTIVE:</b>	Verify that the appropriate Index prices are being included in the Gas Cost Incentive Mechanism (GCIM) to compute the Benchmark rate.	
<b>SCOPE:</b>	A review of transactions recorded on the EASy system report "Traders Daily Purchases with GCIM" for the audit dates of December 19, 20, 21, and 22, 2000 was performed. For the four (4) audit dates, 82 transactions were reviewed.	
<b>TESTS:</b>	For the four (4) days audited in December 2000, verify that the Benchmark rate represented the average of the Gas Daily Average (GDA) and the Natural Gas Index (NGI).	
<b>FINDING STATEMENT:</b>	An incorrect Benchmark rate was recorded for four (4) out of the 82 transactions reviewed.	
<b>OBSERVATION:</b>	<p><u><b>Criteria</b></u> The Benchmark rate used to calculate the Gas Cost Incentive Mechanism (GCIM) should equal the average of the GDA and NGI for the given date.</p> <p><u><b>Condition</b></u> For the four (4) audit dates in December 2000, differences between the actual Index prices and the recorded Benchmark Rates were observed.</p> <p><u><b>Cause</b></u> An incorrect rate was used for the four days in question.</p>	
<b>RISK:</b>	Misstated Benchmark information would lead to incorrect GCIM sharing calculations.	
<b>RECOMMENDATION:</b>	Traders should be restricted from being able to enter or change Index information within the EASy system. The Administrative assistant or a designated back-up should enter Index information.	
<b>MANAGEMENT RESPONSE:</b>	Energy Supply Services has designated an administrative assistant to enter prices on a daily basis. Traders will continue to provide back-up. An automated download of daily prices will be considered as a long-term solution.	

<b>RISK MANAGEMENT PLAN (RMP)</b>			
<b>AUDIT:</b>	Energy Supply Services Gas Procurement Process		<b>W/P Ref.:</b>
<b>Audit #:</b>	01-1134		Section 6(Bk. 1 of 2) W/P - 120
<b>Prepared By:</b>	R. L. Sanders & Lin Koh	<b>Date:</b>	08/22/01

<b>ASSIGNMENT OF RESPONSIBILITY:</b>	Doug Walker, Director, Energy Supply Services
<b>IMPLEMENTATION DATE:</b>	August 1, 2001
<b>DATE (RMP) DISCUSSED WITH MANAGEMENT:</b>	June 5, 2001
<b>ADDITIONAL NOTES:</b>	

<b>RISK MANAGEMENT PLAN (RMP)</b>			
<b>AUDIT:</b>	Energy Supply Services Gas Procurement Process		<b>W/P Ref.:</b>  Section 3(Bk. 2 of 2)
<b>Audit #:</b>	01-1134		
<b>Prepared By:</b> R. L. Sanders & Lin Koh		<b>Date:</b> 08/22/01	
<b>RISK MANAGEMENT PLAN NO:</b>		7	<input checked="checked" type="checkbox"/> Improvement needed <input type="checkbox"/> Properly operating
<b>OBJECTIVE:</b>	Verify that "Parks", Loans, and Exchanges are properly recorded and valued by Accounting over the term of the deal.		
<b>SCOPE:</b>	Reviewed schedules for all Parks, Loans, and Exchanges.		
<b>TESTS:</b>	1. Review spreadsheets prepared by Gas Supply that document Parks, Loans, and Exchanges. Verify that the noted transactions are properly recorded in the spreadsheets. 2. Verify that active Parks, Loans and Exchanges are accrued and valued properly. 3. Verify that active Parks, Loans, and Exchanges are being adjusted to mark-to-market valuations. 4. Verify that accruals for completed Parks, Loans, and Exchanges are reversed and cleared in the month of payback.		
<b>FINDING STATEMENT:</b>	Accruals for Parks, Loans, and Exchanges are not being properly reversed.		
<b>OBSERVATION:</b>	<p><u><b>Criteria</b></u> Parks, Loans, and Exchanges should be accrued using actual volumes and a market price. These accruals should be reversed and cleared once the gas is paid back.</p> <p><u><b>Condition</b></u> Parks, Loans, and Exchanges are being correctly accrued at the beginning of the deal, but the accruals are not properly reversed during the payback period resulting in outstanding accrual amounts.</p> <p><u><b>Cause</b></u> Accruals for Parks, Loans, and Exchanges are tracked on spreadsheets outside of the EASy system. Due to staffing changes, these accruals have not been consistently applied.</p>		
<b>RISK:</b>	Monthly gas cost could be misstated resulting in inaccurate GCA calculations.		
<b>RECOMMENDATION:</b>	A portfolio for Parks, Loans, and Exchanges should be reviewed and updated monthly to reflect the value of open positions resulting in a more accurate GCA calculation.		

RISK MANAGEMENT PLAN (RMP)			
AUDIT:	Energy Supply Services Gas Procurement Process		W/P Ref.:
			Section 3(Bk. 2 of 2)
Audit #:	01-1134		
Prepared By:	R. L. Sanders & Lin Koh		Date: 08/22/01

MANAGEMENT RESPONSE:	Due to staffing changes, the accrual reversal was overlooked in the training process. The proper training has been received. Accruals are currently being reversed and cleared once the gas is paid back.
ASSIGNMENT OF RESPONSIBILITY:	Chris DeLany, Manager, Accounting
IMPLEMENTATION DATE:	The corrective action has already occurred.
DATE (RMP) DISCUSSED WITH MANAGEMENT:	June 18, 2001
ADDITIONAL NOTES:	

## RISK MANAGEMENT PLAN (RMP)

<b>AUDIT:</b>	Energy Supply Services Gas Procurement Process		<b>W/P Ref.:</b>
<b>Audit #:</b>	01-1134		Section 8(Bk. 2 of 2)
<b>Prepared By:</b>	R. L. Sanders & Lin Koh	<b>Date:</b>	08/22/01

<b>RISK MANAGEMENT PLAN NO:</b>	8A	<input checked="checked" type="checkbox"/> Improvement needed <input type="checkbox"/> Properly operating
<b>OBJECTIVE:</b>	Verify that procedures to monitor the profitability of Price Protection Services exist and that results are being communicated to management in a timely manner.	
<b>TESTS:</b>	1. Select one month for review and verify revenue and customer information (number of customers, fuel rates applied, gas volumes, profits/losses, etc.) for PPS customers. 2. Verify that profitability reports are being prepared and submitted to management on a regular basis for Price Protection Services (PPS).	
<b>FINDING STATEMENT:</b>	Current procedures to monitor the profitability of PPS are inadequate and results are not being communicated to management on a timely basis.	
<b>OBSERVATION:</b>	<p><u><b>Criteria</b></u> Product performance and profitability should be analyzed and reported to management on a monthly basis.</p> <p><u><b>Condition</b></u> Current management reports do not provide enough detail on performance of fixed and cap rate products.</p> <p><u><b>Cause</b></u> Information regarding PPS usage and pricing is difficult to identify in the CIS system resulting in a long manual reporting process. Procedures originally established to track program performance are inadequate to handle the recent increase in the number of PPS customers.</p>	
<b>RISK:</b>	Product marketing decisions may be made by management based upon misstated or inaccurate performance results.	
<b>RECOMMENDATION:</b>	To improve efficiency and effectiveness of the PPS reporting process, the CIS system should be upgraded to completely and accurately report billed revenue and customer usage for fixed and cap rate PPS customers.	
<b>MANAGEMENT RESPONSE:</b>	<p><i>Chad P. Smith</i> Current upgrades have been made. Reports are now generated to track the monthly PPS margin. The margins are split between capped and fixed and takes into account: sales volume and revenue; storage impacts; financial impacts; and delivery charges. Greg Davis of Gas Supply is currently running this report. Estimates do not turn into actuals until roughly 45 days after the month ends.</p>	

RISK MANAGEMENT PLAN (RMP)			
AUDIT:	Energy Supply Services Gas Procurement Process		W/P Ref.:
			Section 8(Bk. 2 of 2)
Audit #:	01-1134		
Prepared By:	R. L. Sanders & Lin Koh	Date:	08/22/01

ASSIGNMENT OF RESPONSIBILITY:	Doug Walker, Director, Energy Supply Services Chad Smith, Product Specialist
IMPLEMENTATION DATE:	Currently implemented
DATE (RMP) DISCUSSED WITH MANAGEMENT:	June 11, 2001
ADDITIONAL NOTES:	



## RISK MANAGEMENT PLAN (RMP)

<b>AUDIT:</b>	<b>Energy Supply Services Gas Procurement Process</b>		<b>W/P Ref.:</b>
			<b>Section 8(Bk. 2 of 2)</b>
<b>Audit #:</b>	<b>01-1134</b>		
<b>Prepared By:</b>	<b>R. L. Sanders &amp; Lin Koh</b>	<b>Date:</b>	<b>08/22/01</b>

<b>RISK MANAGEMENT PLAN NO:</b>	<b>8B</b>	<input checked="checked" type="checkbox"/> Improvement needed <input type="checkbox"/> Properly operating
<b>OBJECTIVE:</b>	Verify that a comprehensive marketing strategy that identifies all price and usage risks, for Price Protection Services exists.	
<b>TESTS:</b>	1. Select one month for review and verify revenue and customer information (number of customers, fuel rates applied, gas volumes, profits/losses, etc.) for PPS customers. 2. Review the pricing methods applied to PPS customers (Residential, Commercial and Industrial)	
<b>FINDING STATEMENT:</b>	Current marketing strategy for PPS is inadequate to support the recent increase in PPS customers.	
<b>OBSERVATION:</b>	<p><u><b>Criteria</b></u> Marketing strategy should include using real time pricing to quote customers during the enrollment process and ensure that adequate gas supply is available to support customer usage at the price contracted by the customer.</p> <p><u><b>Condition</b></u> Real time pricing was not used during the recent influx of customer enrollment to the PPS program. Customer usage rates were also higher than expected resulting in the need to procure more supply during a period of high prices.</p> <p><u><b>Cause</b></u> Procedures originally established to track program performance and statistics are inadequate to handle the sudden increase in the number of PPS customers.</p>	
<b>RISK:</b>	Product marketing decisions may be made by management based upon misstated or inaccurate performance results.	
<b>RECOMMENDATION:</b>	A comprehensive proactive plan designed to define the current and potential market, forecasting the direction of product performance and price risk should be developed for use prior to launching any new products. Due the current size of the PPS program, the PPS marketing strategy should incorporate risk management techniques in the planning process in order to adequately match the gas volume supply with the estimated usage. This is especially critical in a rising price environment.	

## RISK MANAGEMENT PLAN (RMP)

<b>AUDIT:</b>	<b>Energy Supply Services Gas Procurement Process</b>		<b>W/P Ref.:</b>
			<b>Section 8(Bk. 2 of 2)</b>
<b>Audit #:</b>	<b>01-1134</b>		
<b>Prepared By:</b>	<b>R. L. Sanders &amp; Lin Koh</b>	<b>Date:</b>	<b>08/22/01</b>

<b>MANAGEMENT RESPONSE:</b>	<p><i>Chad P. Smith</i> Our marketing plan, which will take place in September, will incorporate many changes with the PPS sign-up procedure. We will insert "Terms and Conditions" contract (w/out price) into the customer's monthly bill. The customer will then be directed to call the number on the insert. As the customer calls into the IVR system, they will receive the "real time price" and will have the option to sign-up at that price. We will receive activity reports on a daily basis notifying us of the number of customers signing up. Hedges will then be placed according to the customer enrollment.</p> <p>To identify usage risks, John Caldwell now updates the demand profile every month, based on actual customer usage. This sign-up process will also be implemented for all customers requesting PPS after the marketing campaign is completed in September. The customer will call, we will send the "Terms and Conditions" contract (w/out price) and then customer will be required to call back for the "real time price".</p>
<b>ASSIGNMENT OF RESPONSIBILITY:</b>	Chad Smith, Product Specialist
<b>IMPLEMENTATION DATE:</b>	September 1, 2001 (Marketing Plan) Current (Demand Profile)
<b>DATE (RMP) DISCUSSED WITH MANAGEMENT:</b>	June 11, 2001
<b>ADDITIONAL NOTES:</b>	

## RISK MANAGEMENT PLAN (RMP)

<b>AUDIT:</b>	<b>Energy Supply Services Gas Procurement Process</b>		<b>W/P Ref.:</b>
			<b>Section 7(Bk. 2 of 2)</b>
<b>Audit #:</b>	<b>01-1134</b>		
<b>Prepared By:</b>	<b>R. L. Sanders &amp; Lin Koh</b>	<b>Date:</b>	<b>08/22/01</b>

<b>RISK MANAGEMENT PLAN NO:</b>	9	<input type="checkbox"/> Improvement needed <input checked="" type="checkbox"/> Properly operating
<b>OBJECTIVE:</b>	Verify that embedded derivatives in gas contracts are being properly identified and reported.	
<b>TESTS:</b>	1. Review procedures incorporated by Gas Supply to track and report contracts with embedded derivatives. 2. Review documents prepared by Gas Supply to satisfy SFAS No. 133 reporting requirements.	
<b>FINDING STATEMENT:</b>	Accounting and operational controls are being developed to ensure that the company complies with requirements of SFAS No. 133.	
<b>OBSERVATION:</b>	<p><u><b>Criteria</b></u>          According to the Statement of Financial Accounting Standards (SFAS) No. 133:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> All contracts that currently meet the definition of a derivative must be identified,</li> <li><input type="checkbox"/> Applicable contracts must be valued at the fair market value,</li> <li><input type="checkbox"/> Financial reports must properly reflect the fair market values of the applicable contracts, and</li> <li><input type="checkbox"/> A system to track contracts with embedded derivatives on an on-going basis must be developed.</li> </ul> <p><u><b>Condition</b></u>          An implementation team consisting of members from NiSource &amp; Arthur Andersen was formed to address the operational and accounting impact that SFAS No. 133 will have on NiSource and its affiliates. Based upon the efforts of the this implementation team, SFAS No. 133 requirements have been addressed and summarized in a report submitted to management.</p> <p>All contracts with derivatives have been identified and reported correctly in accordance with SFAS No. 133. Gas Supply is in the process of implementing procedures to monitor future transactions and identify items that require SFAS No. 133 reporting.</p>	
<b>RISK:</b>	Failure to identify derivatives in gas contracts may result in inaccurate reporting and non-compliance with SFAS No. 133.	
<b>RECOMMENDATION:</b>	Continue with the implementation project and keep management informed of any new or unexpected developments	
<b>ASSIGNMENT OF RESPONSIBILITY:</b>	James Clarke, Vice President, Risk Management & Capital Allocation	

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
FIFTEENTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY GENERAL  
D. T. E. 05-27

Date: July 11, 2005

Responsible: Stephen H. Bryant, President

AG-15-21      Please provide all reports and supporting documentation related to the Company's most recent audit of remediation costs. If the audit was not performed by an independent third party, provide the resumes of the individuals conducting the audit and describe the audit review process. If the Company's remediation costs have not been audited in the past five years, when will the next audit occur? If there is no scheduled date, under what conditions will the next audit occur?

Response:      The Company has no record of conducting, or having conducted by an independent third party, an audit of its remediation costs. The Company will supplement this response with information regarding the conditions that will prompt such an audit.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
NINETEENTH SET OF INFORMATION REQUESTS FROM THE ATTORNEY  
GENERAL  
D. T. E. 05-27

Date: July 11, 2005

Responsible: Steven A. Barkauskas, Vice President Total Rewards

AG-19-16 Referring to the Company's response to Information Request AG-1-40, Attachment (a), page 5, please provide the workpapers, calculations, formulas, assumptions, and other supporting documentation for the Discount Rate of 6.00 percent used for the determination of the benefits obligation. Please also provide a complete and detailed description of the reasons that it is different from the Discount Rate used to determine the net periodic benefit cost.

Response: The 6 percent discount rate used for the actuarial reports for the September 30, 2004 measurement date was developed using a yield curve method as described in Attachment AG-19-16 (a) and reflected on page 3 of Attachment AG-19-16 (b). The 6 percent rate was also used to develop the net periodic benefit cost amounts for 2005 pursuant to the requirements of SFAS Nos. 87 and 106.

Similarly, the 2004 net periodic benefit cost amounts reflected in the same 2004 actuarial reports were based on the discount rate used for the September 30, 2003 measurement date. The discount rate used for the 2003 measurement date and prior years was based on Moody's AA bond yields. The Moody's yields are shown on page 2 of Attachment AG-19-16 (b).

# Hewitt Yield Curve: Background

The Hewitt Yield Curve (HYC) was designed by Hewitt Associates to provide a means for corporate plan sponsors to value the liabilities of their defined benefit pension and other postretirement benefit plans under various accounting standards, and was created utilizing the fixed-income expertise of Ryan Labs, Inc.

The HYC is a hypothetical double A yield curve represented by a series of annualized individual discount rates from one-half to thirty years. Each discount rate in the curve was derived by bootstrapping<sup>(1)</sup> a hypothetical zero coupon bond from an equal weighting of the highest yielding (yield to maturity) quartile of bonds in five distinct maturity groups. Bootstrapping is based on the theory that the value of the double A coupon security should equal the value of the package of zero-coupon double A securities that duplicates the coupon bond's cash flow. It is an iterative calculation that determines the discount rate which equates the cash flows of each semi-annual coupon bond with a hypothetical zero coupon bond based on the actual coupon bond price quotations per semi-annual maturity cell.

The bonds used to create each discount rate are subjected to several requirements in order to assure that the resulting rates can be achieved by a pension or other post retirement benefit plan. First, each bond issue is required to have a Aa rating by Moody's Investor Services and/or a AA rating by Standard & Poors, two nationally recognized rating organizations. Second, only non-callable bonds are included so that the yield to maturity can actually be attained without intervening calls, puts, or sinking funds.<sup>(2)</sup> Finally, each constituent bond issue is required to have at least \$150 million par outstanding to ensure it is sufficiently marketable. There are generally about 500 double A bonds that meet these criteria on a month to month basis.<sup>(3)</sup> Because each maturity group contains approximately 25 representative bonds in each of five distinct maturity groups, the bonds underlying the HYC can conceptually be used to develop a portfolio that would cover post retirement liabilities of about \$28 billion.

## Applicability to FAS 87 and FAS 106

The methodology described above is believed to provide one acceptable method of meeting the requirements of the Financial Accounting Standards Board and the SEC for discounting pension and postretirement benefit obligations. For example, FAS 87 paragraph 199 discusses the use of a yield curve:

**“Interest rates vary depending on the duration of the investments; for example, US Treasury bill, 7-year bonds, and 30-year bonds have different interest rates.... The disclosures required by this Statement regarding components of pension benefit obligation *will be more representationally faithful if individual discount rates to various benefit deferral periods are selected.*”** (Emphasis added)

<sup>1</sup> Bootstrapping is a widely accepted technique used by bond analysts to derive the yield of hypothetical zero coupon bonds from coupon bonds.

<sup>2</sup> According to multiple leading fixed income providers as of the date each monthly HYC was created.

<sup>3</sup> The number of double A bonds in each monthly observation will vary depending on issuance and prevailing credit conditions.

Financial Accounting Standards Board  
Statement No. 87, paragraph 199, 12/1985

FAS 87 paragraph 44 refers specifically to high-quality bonds:

***“In making those estimates, employers may also look to rates of return on high-quality fixed-income investments currently available and expected to be available during the period to maturity of the pension benefits.”*** (Emphasis added)

Financial Accounting Standards Board  
Statement No. 87, paragraph 44, 12/1985

FAS 106 paragraph 186 specifies that high-quality, fixed-income investments used should be zero coupon bonds:

***“The objective of selecting assumed discount rates is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the accumulated benefits when due. Notionally, that single amount, the accumulated postretirement benefit obligation, would equal the current market value of a portfolio of high-quality zero coupon bonds whose maturity dates and amounts would be the same as the timing and amount of the expected future benefit payments.”*** (Emphasis added)

Financial Accounting Standards Board  
Statement No. 106, paragraph 186, 12/1990

A letter dated September 22, 1993 from the Securities and Exchange Commission to FASB clarifies the meaning of high-quality, fixed-income investments:

***“The SEC staff expects registrants to use discount rates to measure obligations for pension benefits and postretirement benefits other than pensions that reflect the current level of interest rates at the next measurement date. The staff suggests that fixed-income debt securities that receive one of the two highest ratings given by a recognized rating agency be considered high quality (for example, a fixed-income security that receives a rating of Aa or higher from Moody’s would be considered high quality).”*** (Emphasis added)

**Hewitt**

*Exhibit B*

# **Preliminary Development of 9/30/2004 Discount Rate**

**NiSource Inc.**

**October 8, 2004**



# Traditional Discount Rate Reference Points

	1999 Sept.	2000 Sept.	2001 Sept.	2002 Sept.	2003 Sept.	2004 Sept.
Moody's AA Bonds						
• Industrials	7.53%	7.54%	7.00%	6.27%	5.95%	5.67%
• Corporate	7.68	7.83	7.27	6.63	6.13	5.73
• Public Utilities	7.82	8.11	7.55	6.98	6.30	5.79
Treasury Bonds (Coupon)						
• 30-Year	6.07	5.83	5.48	4.76 <sup>1</sup>	5.14 <sup>1</sup>	4.90 <sup>1</sup>
• 10-Year	5.92	5.80	4.73	3.87	4.27	4.13
Treasury Bonds (Stripped)						
• 25-Year	6.37	6.04	5.57	4.98	5.30	5.00
• 10-Year	6.37	5.97	5.02	4.21	4.50	4.30
PBGC Plan Termination Rates	6.30	7.00	6.30	5.40	4.90	4.20
NiSource	7.75%	8.00%	7.50%	7.00%	6.25%	?

<sup>1</sup> Represents the rate of interest on 30-year Treasury Securities published by the IRS, as the Federal Reserve discontinued reporting the 30-year Treasury Bond rate on February 15, 2002.

# Hewitt Yield Curve Results Columbia and NiSource Plans Only

Hewitt Yield Curve (9/30/2004) ▼

Selected Yield Curve			
Date	9/30/2004		
Weighted Avg Discount Rate	6.03%		
Duration	10.3 Yrs		
Discounted Cash Flows	\$2,042,430,468		

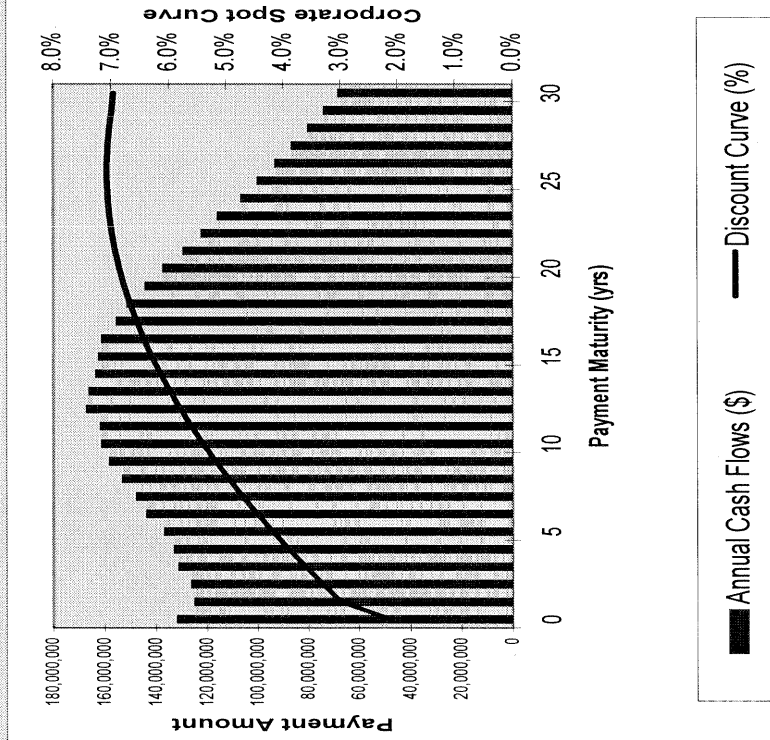
## Moody's Aa Corporate Bond Index<sup>1</sup>

Date	9/30/2004		
As Published (Nominal Rate)	5.73%		
Annualized (Effective Rate)	5.81%		
Duration	11.3 Yrs		
Discounted Cash Flows	\$2,093,200,427		

<sup>1</sup>Only includes long-term (maturity > 20 yrs) corporate bonds

## User Selected Rate

Date (for documentation)	9/30/2004		
Discount Rate	6.00%		
Duration	11.1 Yrs		
Discounted Cash Flows	\$2,050,854,478		



Hewitt Associates

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
TWENTY FIRST SET OF INFORMATION REQUESTS FROM THE ATTORNEY  
GENERAL  
D. T. E. 05-27

Date: July 11, 2005

Responsible: Stephen H. Bryant, President

AG-21-9      Refer to AG-3-32(b), p. 13. The Company states that outside devices are 30 times more likely to fail after the first PT cycle. Define PT cycle.

Response:    PT refers to the periodic testing of meters as a component of the required 7-year meter exchange program.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
TWENTY FIRST SET OF INFORMATION REQUESTS FROM THE ATTORNEY  
GENERAL  
D. T. E. 05-27

Date: July 11, 2005

Responsible: Stephen H. Bryant, President

AG-21-18      Refer to AG-3-32(b), p. 36. The Company states that the costs of continuing to use operating Metscan devices on inside meters is lower but that it may be cost- effective to replace Metscan meters with radio based meters as part of transition strategy. Has the Company gone forward with this transition strategy? Identify the number of functional inside meters that have been replaced with radio based meters and the costs associated with such replacements.

Response:      The Company initially focused its Metscan-to-Itron change-out strategy on Metscan devices that were not functioning. In recent years the Company has shifted to a strategy of saturation replacement, in order to complete the change-out of Metscan devices for Itron devices in the most cost-effective manner. The Company has not tracked the number of functional Metscan devices that were replaced with Itron devices. With Itron's termination of support for the Metscan product, including the operating software that supports the system, it is the Company's view that the entire Metscan system had become, for all practical purposes, non-functional and required replacement. Although the Company currently relies on the Metscan technology for providing daily meter readings for a small number of customers, the Company is actively seeking a product to replace these remaining Metscan devices.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
TWENTY FIRST SET OF INFORMATION REQUESTS FROM THE ATTORNEY  
GENERAL  
D. T. E. 05-27

Date: July 11, 2005

Responsible: Stephen H. Bryant, President

AG-21-19      Describe the steps taken by the Company and or the manufacturer of Metscan to weatherize the meter reading devices. Identify the average actual life of the Metscan meter reading devices deployed by the Company throughout the 1990's.

Response:      The Company developed a plastic hood to divert water, and the Company, in consultation with Itron, also experimented with silicone gaskets around the meter index cover.

The Company does not have data that would allow it to calculate the average life of a Metscan device. The information provided in AG-3-32 (b) indicates that, for devices located on outside meters, the life was certainly longer than 7 years, the period of time between periodic meter changes. For devices on inside meters, the average life would approach at least 14 years, the period of time between two periodic meter changes.

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DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
TWENTY FIRST SET OF INFORMATION REQUESTS FROM THE ATTORNEY  
GENERAL  
D. T. E. 05-27

Date: July 11, 2005

Responsible: Stephen H. Bryant, President

AG-21-20      Describe the Company's technical support and service plan for the  
Metscan devices that still in use today.

Response:      As part of its negotiations with Itron to convert its automated meter  
reading system to Itron's radio-based technology, Itron agreed to provide  
technical support at no charge to Bay State for its Metscan system until  
December 2006.

COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE  
TWENTY-SECOND SET OF INFORMATION REQUESTS FROM THE ATTORNEY  
GENERAL  
D. T. E. 05-27

Date: July 11, 2005


Responsible: Stephen H. Bryant, President

AG-22-40      Has the Company ever had an independent audit of its computer systems or individual components (billing, accounting, CIS, etc)? If yes, provide a copy of the scope of work performed, all reports and results of the audit and records of all modifications and corrective actions that were taken as a result of the audit(s).

Response:      Attachment AG-22-40 is an internal audit of Bay State's Revenue Billing dated April 4, 2003. The audit contained one recommendation. The Company will supplement this response with information regarding the action that was taken in response to the audit recommendation.



**TO:** Reginald Carter, President – Transaction Services  
Bob Skaggs, President - Energy Distribution Companies

**FROM:** Arthur A. Paquin, Vice President Audit, NiSource Inc. 

**DATE:** April 14, 2003

**SUBJECT:** BSG Revenue Billing Review

We have completed a review of the Revenue Billing process for Bay State Gas Company (BSG) and Northern Utilities (NU). The purpose of this review was to examine and evaluate the processes currently in place to ensure that services are billed in accordance with the governing tariff and service agreements, revenue is properly recorded and supported by detailed records and account receivable balances are properly monitored and corporate credit requirements are followed.

### **Background**

Bay State Gas Company (BSG) and Northern Utilities (NU), a subsidiary of BSG, serve approximately 295,000 residential, commercial and industrial customers in Massachusetts, Maine and New Hampshire. Customer billing data, including rates and meter readings, is compiled using the Customer Information System (CIS) from which customer bills are generated. NiSource personnel in Ohio and Indiana provide support services, including accounting and information systems, for customer billing. The Customer Center in Springfield, Massachusetts is responsible for collection of past due bills and responding to customer billing questions.

Our review primarily evaluated the effectiveness of controls to manage the risks to achieving the key business objectives of accurate and timely preparation of customer invoices, proper recording of revenues and customer receivables on the company's financial statements.

### **Conclusion**

Internal controls are effective in mitigating the risks specific to the achievement of business objectives stated above except that reconciliation of sub-ledger accounts receivable balances for Bay State Gas is not performed in a timely manner. Management has agreed to correct this issue going forward. We have reviewed the results with Bob Kriner, Controller for Bay State Gas, Jeff Gore, Manager of Bay State Gas Accounting and Ron Slate, Manager of Transportation for Bay State Gas and Northern Utilities. The scope of audit work performed and results of testing are identified in the following Summary of Business Objectives, Scope and Results.



## Summary of Business Objectives, Scope and Results

- **Business Objective:** Prepare customer invoices for gas transportation and distribution services accurately and timely.

**Scope:** We tested a sample of customer invoices by tracing service rates to the governing tariff authorizations and service agreements. We also traced volumetric data to gas measurement source documents. Invoices were recalculated and footed to test accuracy and traced to supporting customer contracts where applicable. Billing adjustments for the test period were reviewed for reasonableness and proper approval.

**Result:** Our review indicates that the invoices tested were billed in accordance with authorized tariffs and/or contract rates, volumes reflected on invoices were supported by gas measurement detail and billing adjustments were properly authorized and supported by detail records.

- **Business Objective:** Account for gas transportation and distribution service revenues and customer receivables properly in company financial records.

**Scope:** We traced the invoices selected for testing to the bill listing provided by NiSource Transaction Services personnel and reviewed the reconciliation of the bill listing to the general ledger to ensure proper recording. We also traced the invoice amounts to the monthly posting on the accounts receivable sub-ledger. Additionally, we reviewed the reconciliation of the accounts receivable sub-ledger to the general ledger.

**Results:** Our review indicates that a monthly reconciliation of billed revenue between CIS and the general ledger system is performed and that invoices selected for review were properly posted to the accounts receivable sub-ledger. However, a reconciliation of sub-ledger accounts receivable balances to general ledger accounts receivable balances has not been performed since September 2002 for Bay State Gas Company.

**Recommendation:** Management should reconcile sub-ledger accounts receivable balances to general ledger accounts receivable balances in a timely manner for Bay State Gas.

**Management Response:** Management agrees that reconciliations should be performed on a timely basis. Normally, personnel are available to perform these particular account reconciliations in a timely manner. However, during the last quarter of 2002, personnel were assigned other high priority items related to year-end closing. As of the report date, the accounts receivable reconciliations for Bay State Gas and Northern Utilities are up to date. Management intends to train additional individuals and implement a process to ensure timely reconciliations.

- **Business Objective:** Provide customers with gas transportation and distribution services within established credit limits and monitor outstanding receivables.

**Scope:** We reviewed the customer credit requirements for services provided by Bay State Gas and Northern Utilities and the process utilized for the monitoring and collection of past due receivables. The September 2002 aged accounts receivable balance was reviewed for

reasonableness and traced to the general ledger. Additionally, we reviewed the method used to calculate the bad debt reserve at December 31, 2002 and traced the balance to the general ledger.

**Result:** New residential gas customers are screened through the POS I.D. program and cannot be denied service unless they have a previous bad debt with Bay State or Northern Utilities. Deposits and letters of credit are utilized for commercial and industrial customers and collection procedures are initiated once their account balance becomes 60 days past due. Additionally, the aged accounts receivable listing is prepared monthly and outstanding amounts are properly monitored.

We appreciate the cooperation and assistance that your staff provided to the audit team during this review. Should you have any questions or require additional information, please do not hesitate to contact me at (219) 647-6084 or Bill Taylor at (304) 357-2545.

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J. W. Taylor (attachment)  
Deloitte & Touche LLP (attachment)

## MANAGEMENT ACTION PLAN (MAP)

<b>Audit:</b> Bay State Gas Company				<b>Risk Rating:</b> Medium	
<b>Audit #:</b> Revenue Billing Process				<b>Risk Matrix #:</b> 2	
<b>Control Focus:</b> Operational		Financial	X	Compliance	
<b>Prepared by:</b> Jeff Northcutt				<b>W/P #:</b> 217	
<b>Date Issued:</b> 3/11/03				<b>MAP #:</b> 1	
<b>Date Issued:</b> 3/11/03				<b>Response Date:</b> 4/3/03	
<b>BUSINESS OBJECTIVE:</b> Account for gas transportation and distribution service revenues and customer receivables properly in company financial records.					
<b>BUSINESS RISK:</b> Are customer accounts receivable records reconciled to the general ledger?					
<b>PROCEDURE OBJECTIVE:</b> Determine whether CIS accounts receivable records are being reconciled to the Lawson general ledger system in a timely manner.					
<b>AUDIT PROCEDURE:</b> Interview accounting personnel from Energy Distribution in order to determine responsibility for reconciling CIS accounts receivable ledger to the Lawson general ledger. Review the December 2002 reconciliation of the CIS accounts receivable ledger balances to the Lawson general ledger balances. Document whether reconciliations are performed timely and accurately.					
<b>OBSERVATION:</b> <u>Criteria</u> Accounts receivable balances per the sub-ledger should be reconciled to the general ledger in a timely manner.  <u>Condition</u> A reconciliation of sub-ledger accounts receivable balances to general ledger accounts receivable balances has not been performed since September 2002 for Bay State Gas Company. A reconciliation of sub-ledger accounts receivable balances to general ledger accounts receivable balances has been performed as of December 2002 for Northern Utilities, Inc.  <u>Cause</u> Energy Distribution personnel were not available to perform reconciliation's in a timely manner during the last part of 2002 due to other high priority issues.  <u>Effect</u> Manual changes in CIS may not get incorporated into Lawson general ledger. Balance sheet may be incorrect.					
<b>RECOMMENDATION:</b> Reconcilements of sub-ledger accounts receivable balances to general ledger accounts receivable balances should be performed in a timely manner for Bay State Gas.					

4/11/2003

**ACTION PLAN:***Management Response:*

Management agrees that reconciliations should be performed on a timely basis. Normally, personnel are available to perform these particular account reconciliations in a timely manner. However, during the last quarter of 2002, personnel were assigned other high priority items related to year-end closing. As of the audit report date, the accounts receivable reconciliations for Bay State Gas and Northern Utilities are up to date. Management intends to train additional individuals and implement a process to ensure timely reconciliations.

*Assignment of Responsibility:*

Jeff Gore, Manager of Bay State Gas Accounting

*Implementation Date:*

April 3, 2003